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102D CONGRESS
1st Session

HOUSE OF REPRESENTATIVES

REPT. 102-64
Part 2

UNITED STATES OBJECTIVES IN TRADE AGREEMENT NEGOTIATIONS

MAY 16, 1991.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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Mr. ROSTENKOWSKI, from the Committee on Ways and Means, submitted the following

REPORT

together with

ADDITIONAL VIEWS

[To accompany H. Res. 146 which on May 9, 1991, was referred jointly to the Committee on Ways and Means and the Committee on Rules]

[Including cost estimate of the Congressional Budget Office]

The Committee on Ways and Means, to whom was referred the resolution (H. Res. 146) expressing the sense of the House of Representatives with respect to the United States objectives that should be achieved in the negotiation of future trade agreements, having considered the same, reports favorably thereon with amendments and recommends that the resolution as amended be agreed to.

The amendments (stated in terms of the page and line numbers of the introduced resolution) are as follows:

On page 1, in the second clause of the preamble, insert "net" after "increases".

On page 2, in the fourth clause of the preamble, strike "dislocated" and insert "and become dislocated" after "jobs".

On page 5, line 17, insert "each committee believes" after "extent".

SUMMARY AND PURPOSE OF H. RES. 146

H. Res. 146 expresses the sense of the House of Representatives with respect to the objectives the United States should achieve in the negotiation of future trade agreements. These objectives include the fulfillment of the commitments made by the President in

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a response on May 1, 1990 to issues raised by the Congress which need to be addressed in a North American Free Trade Agreement (NAFTA) with Mexico and Canada. The resolution states the need for a cooperative, bipartisan working relationship between the Congress and the Executive branch to ensure agreements that best serve the economic interests of the United States. The resolution also expresses the sense of the House that on the basis of these commitments and the expectation that they will be fully carried out, the fast track procedures as set forth in section 151 of the Trade Act of 1974 for Congressional consideration of trade agreement implementing legislation should be extended.

The Committee adopted three amendments, all non-substantive in nature, to clarify the language of the resolution as introducted.

Specifically, the resolution as ordered reported expresses the sense of the House of Representatives that:

(1) On the basis of the Presidential response of May 1, including commitments to address issues relating to environmental protection, health and safety standards, labor and industry adjustment, and worker rights, and on the expectation that the commitments in that response will be carried out, the fast track procedures as set forth in section 151 of the Trade Act of 1974 for consideration of trade agreement implementing legislation should be extended.

(2) In order to implement fully the Presidential response of May 1 and to maximize the potential for reaching agreements in the U.S. overall best economic interests—

(a) the U.S. Trade Representative (USTR) and other appropriate Executive branch officials shall, throughout the course of the NAFTA negotiations, consult closely and on a regular basis (as has been the case with the Uruguay Round) regarding the status of the negotiations and the progress in achieving the objectives in the Presidential response with Members of Congress, including the House Committee on Ways and Means, the Senate Committee on Finance, any other appropriate House and Senate committees of jurisdiction, and the Speaker-appointed Chairmen's Advisory Group on trade negotiations;

(b) the USTR and other appropriate Executive branch officials shall consult extensively with, and seek the views and advice of, interested parties in the private sector throughout the course of the negotiations;

(c) the President shall, as early as practicable but no later than the date of his notice of intention to enter into a NAFTA, submit a full report to the Congress indicating the extent to which satisfactory progress has been made in achieving the objectives set forth in the Presidential response; and

(d) the reports required under section 135(e) of the Trade Act of 1974 of the Labor Advisory Committee for Trade Negotiations and Trade Policy, the Industry Policy Advisory Committee, and, where appropriate, other policy, sectoral, and functional advisory committees, with respect to a NAFTA shall include an assessment as to whether and to what extent each committee believes satisfactory progress has been made in achieving the objectives set forth in the Presidential response.

(3) Any trade agreement negotiated by the Administration should seek to achieve the applicable negotiating objectives set

forth in section 1101 of the Omnibus Trade and Competitiveness Act of 1988, in particular to reduce or eliminate tariff and nontariff barriers and other trade-distorting measures; to ensure adequate and effective intellectual property rights protection and enforcement; to reduce or eliminate barriers to trade in services; to liberalize conditions for investment; and to include effective review, consultation, and dispute settlement mechanisms.

(4) A NAFTA must provide strict rules of origin and enforcement measures to ensure that the benefits of the agreement accrue only to the parties thereof, foster job creation within the United States, and effectively preclude benefits to articles transshipped from third countries or subject merely to minor operations.

(5) A NAFTA must permit the United States to maintain strict health and safety standards and their enforcement with respect to imports of agricultural commodities; provide sufficiently lengthy transitional and adequate safeguard measures to minimize industry, agricultural, and worker dislocations and to remedy the effects of injurious increases in imports; and to maintain U.S. laws against injurious subsidies, dumping, and other unfair trade practices.

(6) Implementation of a NAFTA must be accompanied by an effective worker adjustment program, developed by the Administration and the Congress, that is adequately funded and ensures workers who may lose their jobs as a result of such agreement will receive prompt, comprehensive, and effective services, either through a new program or improvement or expansion of an existing program.

(7) In carrying out the objectives of the Presidential response relating to environmental protection, the President should seek to develop a joint program to address border environmental problems related to air and water pollution, hazardous wastes, chemical spills, pesticides, and enforcement.

The main purpose of the resolution is to memorialize in the House of Representatives the commitments made in a response from the President dated May 1 to letters dated March 7, 1991, from the Chairmen of the House Committee on Ways and Means and Senate Committee on Finance and dated March 27, 1991, from the Majority Leader of the House expressing the need to address various labor, environmental, and other economic issues in the context of a NAFTA (WMCP 102–10). The resolution also sets forth expectations of the House for consultations by the Administration with the Congress on all aspects of the negotiations and reporting by the Executive branch and by industry and labor advisory groups on progress in meeting the objectives. The resolution incorporates these assurances in response to Member concerns to accompany consideration by the House of H. Res. 101, disapproval of the request of the President for extension of fast track procedures, which the Committee has ordered reported adversely to the House.

BACKGROUND

Section 151 of the Trade Act of 1974 sets forth special rules of the House and of the Senate for fast track Congressional consideration of legislation that approves trade agreements and makes changes in domestic laws necessary or appropriate for the interna-

tional obligations to enter into force. These procedures establish specific periods of time for committee and floor action and prohibit any amendments to the implementing legislation once the bill is formally introduced. Congressional consultation requirements and private sector advice precede these procedures.

Section 1102 (b) and (c) of the 1988 Act authorize the President to enter into multilateral or bilateral trade agreements with foreign countries before June 1, 1993 to reduce or eliminate any nontariff barriers or other trade distorting measures. However, the fast track procedures do not apply to multilateral or bilateral trade agreements entered into after May 31, 1991, unless the procedures are extended to implement trade agreements entered into before June 1, 1993 as requested by the President in a report to the Congress on March 1, 1991 (House Document 102-51).

In his March 1 report to the Congress, the President cited completion of the Uruguay Round of multilateral trade negotiations launched in September 1986 under the auspices of the General Agreement on Tariffs and Trade (GATT), negotiation of a NAFTA with Mexico and Canada, and pursuit of free trade agreements with one or more Latin American countries under the Enterprise for the Americas Initiative as justification for a two-year fast track extension. As described in the report, significant progress has been made in four years of Uruguay Round negotiations, but it was not possible to achieve a comprehensive agreement on the board, complex agenda in time to meet the March 1 deadline for using existing fast track authority.

On June 20, 1990, President Bush and Mexican President Salinas issued a joint statement endorsing the objective of a comprehensive bilateral free trade agreement, and directed their respective trade ministers to undertake consultations and preparatory work necessary before initiating negotiations. On September 25, 1990, President Bush sent a formal notice to the House Ways and Means and Senate Finance Committee of his intention to enter into trade negotiations with Mexico; on February 5, 1991, he sent a formal notice to the two Committees of negotiations with Canada to seek a three-way free trade area. On February 5, President Bush and Salinas and Prime Minister Mulroney issued a joint communique announcing their intention to pursue a comprehensive North American Free Trade Agreement as soon as possible, consistent with domestic procedures. The negotiations would seek progressive elimination of obstacles to the flow of goods and services and to investment, portection of intellectual property rights, and establishment of a fair and expeditious dispute settlement mechanism. Neither Committee has disapproved proceeding with these negotiations under the fast track procedures during the 60-legislative day committee disapproval periods.

As a result of serious concerns raised by a number of Members of Congress, the Chairman of the Committee on Ways and Means, Dan Rostenkowski, the Chairman of the Senate Committee on Finance, Lloyd Bentsen, sent a joint letter on March 7, 1991, to President Bush requesting an action plan by May 1 on how the Administration intends to address the disparities between the United States and Mexico in the adequacy and enforcement of environmental standards, health and safety standards, and worker rights,

as well as other relevant issues in the context of a free trade agreement. The Chairman also urged the Administration to take the time necessary to resolve these complex issues, and stated that consulting with the Congress is an absolute necessity throughout the negotiations. On March 27, the Majority Leader of the House, Richard A. Gephardt, also sent a letter to the President detailing similar concerns. The President responded to these letters on May 1, 1991 (WMCP: 102–10).

H. Res. 146 was introduced on May 9, 1991, by Mr. Gephardt with Mr. Rostenkowski and Mr. Levine as cosponsors.

For further background information, the adverse report of the Committee on Ways and Means on the resolution to disapprove fast track extension, H. Res. 101, contains a detailed description of the fast track procedures and consultation requirements, their operation in practice, the background and status of future negotiations, and the justification for fast track extension.

COMMITTEE ACTION

In the 101st Congress, the Subcommittee on Trade of the Committee on Ways and Means held two days of initial hearings on June 14 and 28, 1990, on United States-Mexico economic relations (Serial 101–108). Testimony by Administration and private sector witnesses at this hearing focused primarily on the June 10 announcement by President Bush and Mexican President Salinas that they endorsed the goal of a comprehensive free trade agreement between the two countries. Most of these initial reactions, except from labor union representatives, were favorable to the concept of a bilateral free trade agreement.

On September 27, 1990, the Committee on Ways and Means and the Senate Committee on Finance jointly requested the U.S. International Trade Commission (ITC) to conduct a fact-finding study under section 332(g) of the Tariff Act of 1930 of the likely impact of the proposed free trade agreement on the U.S. economy in general, on major U.S. industries and other sectors, and on specific regions of the country. The report by the ITC to the Committees in February 1991 entitled "The Likely Impact on the United States of a Free Trade Agreement with Mexico" (USITC Publication 2353) provided background analysis for subsequent hearings. The ITC provided updated information to the Committees on April 4, 1991, concerning the likely impact on income for lower-wage workers.

The Subcommittee on Trade held three full days of hearings on February 20, 21, and 28, 1991, on the proposed negotiations of a bilateral free trade agreement with Mexico, in conjunction with the 60-legislative day period for Committee disapproval of the negotiations proceeding under the fast track procedures. the Subcommittee received testimony from the U.S. Trade Representative, Ambassador Carla Hills, on behalf of the Administration, Members of Congress, and a broad spectrum of private sector witnesses representing industry, agriculture, labor, services, environmental, worker and human rights, consumer, academic and other interests who had requested to testify.

The full Committee on Ways and Means held two days of hearings on March 12 and on April 11 on the President's request on

March 1 for an extension of the fast track procedures. Ambassador Hills testified March 12 on behalf of the Administration in support of the extension request; the Majority Leader of the House and invited panels of witnesses from major associations representing business interests in favor of fast track extension and from major labor unions opposed to extension testified on April 11, focusing primarily on the implications of the proposed NAFTA. The Committee also received numerous written statements for the printed hearing record and considerable correspondence from a very broad range of domestic interests on both sides of the NAFTA issue; very little opposition has been expressed on fast track extension to conclude the Uruguay Round..

On May 14, the Committee ordered H. Res. 146 favorably reported to the House by voice vote, with amendments.

JUSTIFICATION

In reporting H. Res. 101 adversely to the House, the Committee on Ways and Means has agreed that the fast track procedures for implementing trade negotiations should continue for an additional two-year period in order to conclude the Uruguay Round and proceed with NAFTA negotiations. However, in view of the labor and environmental issues raised about the application of the fast track procedures to a NAFTA with Mexico and Canada and the legitimacy of these concerns in terms of whether an agreement will be in the U.S. economic interest, the Committee believes it is appropriate for the House of Representatives to set forth its expectations of U.S. negotiating objectives for future trade agreements, and a NAFTA in particular.

The Committee believes that achievement of the negotiating objectives set forth in the 1988 statutory mandate for the Uruguay Round would be in the U.S. national economic interest. Substantial comprehensive agreements in the Round that ensure meaningful foreign market access and strengthen multiliateral trading rules and disciplines would increase world trade, economic growth, and international living standards. A NAFTA that promotes economic growth, increases employment, and enhances the international competitiveness of U.S. industries and workers would also be in the best interest of the United States. Extension of fast track procedures is necessary in order to pursue these opportunities.

Mexico is the third largest trading partner of the United States. U.S. exports to Mexico have more than doubled since 1986 while Mexico significantly liberalized its trade barriers. Excluding petroleum, the United States enjoyed a $2 billion trade surplus with Mexico last year and a $2.3 billion surplus in manufactures. Agriculture exports have more than doubled since 1986. Of every dollar Mexico spends on imports, 70 cents is used to purchase goods from the United States, whereas only 6 percent of total U.S. imports come from Mexico. The U.S. market is already relatively open to imports from Mexico, with tariffs averaging under 4 percent and over one-half of imports already entering duty-free or at lower duties assessed only on value added in Mexico under the maquiladora program. While the Salinas Government has accomplished significant economic reforms and trade and investment liberaliza-

tion in recent years, many Mexican tariff and nontariff barriers remain high or, in the absence of a free trade agreement, could be restored to previous restrictive levels. A NAFTA would guarantee and expand these liberalization efforts. The negotiations would also provide an opportunity to improve and expand the existing U.S.-Canada Free Trade Agreement.

The three major economic studies conducted to date on the potential impact of a free trade agreement with Mexico and summarized in the President's May 1 response indicate that the U.S. economy would gain modest, but net benefits in terms of increased exports, output, and employment. Mexican trade liberalization to date has already resulted in a significant increase in U.S. export-related jobs.

Notwithstanding the indications that a NAFTA would benefit the U.S. economy overall, the vast disparities between the U.S. and Mexican economies in terms of wage levels, health and safety standards, environmental protections and enforcement, and worker and human rights have raised serious concerns about the potential adverse impact of a NAFTA on certain domestic industries and regional agricultural sectors, manufacturing workers, and the border environment unless the Agreement addresses these disparities and is accompanied by adequate safeguards and adjustment measures. In particular, considerable concern has been raised that these disparities under free-trade conditions could result in massive plant closings and job transfers to Mexico and pressures to lower manufacturing wages in the United States. Others argue, on the other hand, that many factors influence decisions on plant location, and that further reduction of Mexican trade and investment barriers will increase U.S. global competitiveness and create more higher-level export-related jobs in the United States.

The President, in his 86-page response to these issues on May 1, has described in detail an action plan to ensure that industry, labor, and environmental concerns are fully addressed, within the basic agreement itself and in parallel actions. President Salinas has also made clear the commitment of his Government to enforcing environmental standards and improving labor and living conditions for Mexican workers.

With respect to adjustment of industries and workers, the plan includes specific commitments to seek in the NAFTA itself provisions to avoid or remedy dislocations. The adjustment measures would include transition periods for phasing out tariffs and nontariff measures over a time period sufficient for orderly adjustment of industries, agriculture, and workers producing import-sensitive articles, including consideration of transition periods longer than under the U.S.-Canada Free Trade Agreement; safeguard measures to allow temporary reimposition of duties and other restrictions if injurious increases in imports occur, including special "snap-back" provisions for agricultural perishable products; and strict rules of origin to ensure that third countries do not receive NAFTA benefits by virtue of mere pass through or minimal assembly operations, including seeking to strengthen the existing North American content requirement for assembled automotive products.

Beyond the NAFTA itself and of particular importance, the response includes the Administration's commitment to work with the

Congress to ensure that a worker adjustment program is adequately funded and that workers who may lose their jobs as a result of a NAFTA will receive prompt, comprehensive, and effective services, either through improvement and expansion of an existing program or through creation of a new program. It is the Committee's intention that such a program be included in the NAFTA implementing legislation.

With respect to labor issues, the response points out that Mexican law provides comprehensive worker rights and labor standards and that a NAFTA would help to raise living standards and create resources for better enforcement of these existing laws. A joint Memorandum of Understanding between the U.S. Department of Labor and Mexican Secretariat of Labor and Social Welfare will provide a framework for bilateral cooperation on health and safety measures, general work conditions, procedures for resolving labor conflicts, labor statistics, and other areas of mutual concerns in parallel with the NAFTA negotiations. In addition, there is bilateral agreement on specific projects in the areas of occupational health and safety, child labor, and labor statistics. The issue of labor mobility will not be included in the NAFTA negotiations and no changes are contemplated in U.S. immigration laws with the possible exception of temporary entry facilitation of certain professionals and managers similar to the U.S.-Canada FTA.

With respect to environmental issues, the response makes the commitment that the NAFTA itself will maintain the right to exclude any products from Mexico that do not meet U.S. health and safety standards and will do nothing to weaken U.S. environmental laws. In addition, the two countries will build upon existing cooperation with new joint initiatives, to be developed and implemented in parallel with the NAFTA negotiations, for an integrated border environment plan, consultations on implementation, enforcement, and enhancement of respective environmental standards and regulatory regimes, expansion of cooperative enforcement activities, and technical cooperation and training. A study will be undertaken of U.S.-Mexico environmental issues, particularly the possible environmental effects of a NAFTA, and individuals with an environmental expertise will be included in the private sector trade advisory committees. Mexico has a comprehensive environmental law in place, President Salinas is committed to improving its implementation, and a NAFTA would help generate the resources for effective enforcement.

Finally, the President has given his personal commitment to close bipartisan cooperation with the Congress in the negotiations and beyond. Further, the response states:

> We will take the time necessary to arrive at agreements that are truly and substantially in the economic interest of the United States. We will take the time needed to consider all relevant issues and to consult fully with Congress and the private sector. Until we arrive at good agreements—ones that Congress will agree are good—there will be no agreements.

The Committee believes that the President has made a comprehensive and credible response to legitimate issues that have been

raised about the proposed NAFTA that warrants Congressional support for both Uruguay Round and NAFTA negotiations by granting the request for extension of fast track authority. At the same time, H. Res. 146 makes clear that in supporting fast track extension the House of Representatives expects the specific commitments in the Presidential response and other objectives for future trade agreements to be fulfilled. The Committee also takes the commitment to consult with the Congress throughout the process very seriously and intends to ensure that it is met. The continuation and success of fast track procedures, which are rules of the House and of the Senate, depend upon a cooperative bipartisan working relationship between the Congress and the Executive branch so that the full range of interests and concerns relating to the negotiation and implementation of future trade agreements can be considered and resolved. The Congress clearly preserves its role under the fast track procedures to influence, through the consultation process, the content of agreements under negotiation and to make the ultimate decision on whether the final agreements reached in the Uruguay Round and a NAFTA best serve U.S. economic interests and should be approved.

VOTE OF THE COMMITTEE IN REPORTING THE RESOLUTION

In compliance with clause 2(l)(2)(B) of rule XI of the Rules of the House of Representatives, the following statement is made relative to the vote of the Committee in reporting the resolution. H. Res. 146 was ordered favorably reported by the Committee to the House of Representatives on May 14, 1991, by voice vote, with amendments.

OVERSIGHT FINDINGS

In compliance with clause 2(l)(3)(A) of rule XI of the Rules of the House of Representatives relating to oversight findings, the Committee reports that H. Res. 146 reflects the Presidential response to the legitimate concerns raised by Members of Congress during Committee oversight of proposed NAFTA negotiations about the need to address issues beyond the scope of traditional trade agreements. The resolution expresses the expectations of the House on the objectives of future negotiations and the role of the Congress under the fast track procedures that will provide a basis for the Committee and the House to oversee the course of the trade negotiations and to judge the final results of agreements under these procedures.

In compliance with clause 2(l)(3)(D) of rule XI of the Rules of the House of Representatives, the Committee states that no oversight findings and recommendations have been submitted to this Committee by the Committee on Government Operations with respect to the provisions contained in this resolution.

BUDGET EFFECTS AND COST ESTIMATES, INCLUDING ESTIMATES OF CONGRESSIONAL BUDGET OFFICE

In compliance with clause 2(l)(3)(B) of rule XI of the House of Representatives, the Committee states that H. Res. 146 does not

provide new budget or spending authority or any increase or decrease in revenues or tax expenditures.

In compliance with clause 2(l)(3)(C) of rule XI of the Rules of the House of Representatives, requiring a cost estimate prepared by the Congressional Budget Office, the following report prepared by CBO is provided:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, May 14, 1991.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed H. Res. 146, expressing the sense of the House with respect to the United States' objectives that should be achieved in the negotiations of future trade agreements, as ordered reported by the House Ways and Means Committee on May 14, 1991. The CBO estimates that this resolution would have no effect on federal government revenues in fiscal years 1991–1996.

In response to Congressional concerns regarding potentially damaging economic and environmental effects of the North American Free Trade Agreement (NAFTA), President Bush transmitted to Congress on May 1, 1991, an "action plan" which enumerated the administration's specific commitments for the negotiations. The results of the negotiations would be considered in Congress using "fast track" procedures. Under these procedures, Congress can offer no amendments to the implementing legislation for the trade agreement and must consider the legislation in accordance with a strict timetable. Congress, however, can disapprove the extension of the fast track procedures for all future trade agreements by passing a resolution of disapproval in either house by June 1, 1991. H. Res. 101 has been introduced in the House to disapprove President Bush's request of March 1, 1991, for a two-year extension of the fast track procedures.

H. Res. 146 expresses the expectations of the House of Representatives with respect to U.S. objectives for future trade agreements under fast track authority. Specifically the resolution stresses the commitments of the Presidential response of May 1, 1991, and the consultations with Congress throughout the negotiations. Because the resolution only would serve to articulate the sense of the House and would make no change in current law, passing the resolution would cause no change in federal revenues in fiscal years 1991–1996.

PAY-AS-YOU-GO CONSIDERATIONS

[By fiscal year, in millions of dollars]

	1991	1992	1993	1994	1995
Change in revenues	0	0	0	0	0
Change in outlays	0	0	0	0	0

Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 sets up pay-as-you-go procedures for legislation affecting direct spending or receipts through 1995. This resolution has no pay-as-you-go implications.

If you wish further details, please feel free to contact me or your staff may wish to contact John Stell at 226–2720.

Sincerely,

ROBERT D. REISCHAUER,
Director.

ADDITIONAL VIEWS OF HON. E. CLAY SHAW, JR., HON. FRANK GUARINI, AND HON. CHARLES RANGEL

Our southwest border with Mexico has become the chief point of entry for illegal narcotics being shipped into the United States. Traffic in illegal narcotics is a big business, even though it never appears in the balance of trade statistics we consider. We recognize the advantages and disadvantages that free trade with Mexico offers to both our countries.

Still, we are concerned that with broadened trade will come expanded opportunities for drug trafficking into the United States. The resolution approved by the committee emphasizes the prominent role consideration of labor and environmental issues should play in negotiations for a North American free trade agreement. No less vital is consideration of the impact that broadened trade between the United States and Mexico will have on illegal narcotics exports from Mexico, and ultimately drug use in the United States. The Bush administration should obtain agreements on improved interdiction and control of drug trafficking in its negotiations with Mexico.

E. CLAY SHAW, Jr.
FRANK GUARINI.
CHARLES B. RANGEL.